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# Santa Clara Law Best Practices in Patent Litigation Survey

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**Santa Clara Best Practices in Patent Litigation Survey<sup>1</sup>**

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EXECUTIVE SUMMARY

Over the past few years, Congress, appellate, and district courts have made significant strides to improve patent law and litigation practice. Congress is now considering making more changes, to supplement ongoing tailoring by the courts. Dialog between the patent bench, patent bar, and lawmakers is crucial for informing these efforts. To support this dialog, we developed, in consultation with judges and company lawyers in spring of 2013, a list of questions to probe the experiences, opinions, and suggestions of lawyers about the effectiveness of current and proposed patent law and litigation practices. We asked survey takers to rate, on a range from ineffective to very effective, certain existing and proposed practices and interventions, and converted these scores into numerical ratings (of up to a highest possible effectiveness score of 100%). Based on over 500 responses, about a quarter from in-house counsel at large technology companies and the remainder from outside (lawfirm) counsel, we probed the following topics, and made the following findings:

Current Reforms

Among recent reforms, the FCAC e-Discovery model order ranked the highest in effectiveness among inside and outside counsel (43%). While many comments were positive, others highlighted the urgent need for additional improvement to e-Discovery. Doctrinal reform to damages law received mixed reviews, reflecting the practical challenges posed by dealing with a law in flux, resulting in increased complexity and cost. Post-grant challenges were seen as too early to evaluate, and misjoinder rules as circumventable, by judges and parties. Across the reforms, too much variance in court uptake and implementations, due to the discretion given to judges, was seen as undermining their effectiveness. We also describe findings particular to certain e-Discovery model order principles and practices.

Case Management

We asked survey takers to evaluate the effectiveness of specific case management practices, including with respect to claim construction, specific practices like mediation and using magistrates, and timing.

***Claim Construction Practices:*** early claim construction and limiting the number of asserted claims rated highly (around 65-68%) among both inside and outside counsel populations, other practices received mixed to low ratings. For example, carrying out claim construction with summary judgment ranked worst of the practices listed (with an effectiveness rating of 35%),

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<sup>1</sup> We thank the many judges, in-house counsel, and outside counsel who provided input to us and completed this survey. An early version of the results was presented at the Federal Circuit Bar Association 2013 Advanced Complex Litigation Series, May 3, 2013 at the Santa Clara University School of Law.

<sup>2</sup> See Appendix B for author biographies

there was a perception, for example, that “combining claim construction with summary judgment is great for the Court (only do it once) but terrible for the parties, because it comes too late in the process.”

***Specific Case Management Practices:*** Respondents generally favored requiring meaningful answers to infringement contentions (62%) as a way to streamline and focus the case. Most also commented positively about specialized experts, while more skepticism was expressed about magistrate judges. Court-ordered mediation was viewed as the least effective of the specific case management practices probed (33%), as one comment from an active mediator put it, “mediation is effective only when the parties are ready to mediate.”

***Timing:*** The highest ratings given to any intervention on this survey and greatest area of consensus among inside and outside counsels concerned timing. Both groups of respondents found timely decisions on summary judgment motions to be the most effective practice of any practice, intervention, or development in the entire survey (85%). Timely decisions on transfer motions were rated as highly effective for increasing efficiency (72%). Survey respondents also discussed the pros and cons of damages bifurcation, stays for post-grant reviews, and firm trial dates.

#### Special Topics in Patent Litigation

***Fee-Shifting:*** Based on about one hundred outside counsel responses, discovery abuses, followed by frivolous claims/defenses, were in the greatest need of sanction or shifting. Respondents also identified abuses that tended to be particular to plaintiffs: evasive discovery responses, overly burdensome or excessive discovery requests, frivolous/meritless claims, and unreasonable claim construction positions; as well as to defendants: stalling or failing to provide requested information, hiding non-infringement positions, and unreasonably delaying or asking for late for trial dates.

***Customer Suits:*** 86% of in-house counsel reported that their company’s customers had received PAE demands based on the use or implementation of the company’s products. Outside counsel described as reasons for suing customers exclusively: to maximize damages, jurisdictional/practical reasons, and because manufacturers were seen as harder targets. However manufacturers were also at times included in the suit, to increase the chances or amount of recovery.

#### Proposed Reforms

Among proposed legislative reforms, fee-shifting and sanctions for prevailing parties and for discovery abuses rated most favorably (~65%), although outside counsel were less optimistic about the effectiveness of these and other proposed reforms including heightened pleading, limiting the number of claims and references at issue in a case, and expanding the covered business method transitional patent program.

### The Contexts of Patent Litigation

90% of in-house respondents reported having received a PAE demand, and almost all who responded reported financial impact and distraction from the suit. Following that, a change in product (37%) was the most likely impact. With respect to an trends in patent monetization, there was a split in responses – slightly more than half of responses indicated that the respondent’s company had not experienced greater pressure to monetize, while slightly less than half indicated that their company had either monetized (23%) or were thinking of doing so (28%).

### Conclusion

With the attention of national lawmakers, advent of the Patent Pilot Program, and tools for the dissemination of case management practices such as the Federal Judicial Center’s Patent Case Management Guide, the patent system has the potential to greatly improve in the upcoming years through the development, testing, evaluation and dissemination of best practices. But in order to identify what works, policy interventions need to be systematically evaluated, revisited, and recalibrated. This survey represents a snapshot of how current and proposed practices are viewed by some counsel and our hope such empirical reports can inform a data-driven approach to improving the patent system.

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## I. What We Did and Why We Did It

Over the past few years, Congress, Appellate and District courts have made changes to improve patent law and litigation practice. Congress is currently considering making more changes, to curb abusive litigation and demand practices. Dialog between the patent bench, patent bar, and lawmakers, through notable programs like the Federal Circuit Bar Association’s Bench and Bar series, is crucial for informing these efforts.

To support this dialog, we developed, in consultation with judges and company lawyers, a list of questions to probe the experiences, opinions, and suggestions of lawyers about the effectiveness of current and proposed patent law and litigation practices. We pretested the survey with inside and outside counsels. We asked both populations about the effectiveness of a range of substantive legal developments and case management practices, for example the e-Discovery model order, changes to damages law, and specific timing practices in case management, at increasing the efficiency of patent litigation. We asked in-house counsel about the contexts of patent litigation within their companies, in particular about how certain patent demands impacted their companies, and their own monetization of patents.

We sent the survey to about 12,500 inside and outside counsel, and got back around 517 completed answers.<sup>3</sup> Each of us analyzed various sections of responses, and summarized them below. We asked the survey takers to rate each practice on the basis of its effectiveness in increasing the efficiency of patent cases. We converted the scores into numerical representations of “overall effectiveness” with 0% representing the lowest possible score (if all respondents to the question rated the intervention as “not effective” or “ineffective”) and 100% representing the most effective (if all respondents to the question rated the intervention as “very effective”). In order to evaluate whether or not the two groups, inside and outside counsel, agreed on the relative effectiveness of each intervention we calculated a statistic, called Relative Order Agreement.<sup>4</sup> We present both calculated statistics in presenting the results, below. (See Appendix A for full description of our Methodology).

## II. Recent Judicial and Legislative Reforms

We asked inside and outside counsel to evaluate the effectiveness of recent judicial and legislative reforms, from not effective to very effective. We also asked counsel to comment on specific aspects of the e-Discovery model order. Below we summarize general themes before mentioning specifics about each practice.

### A. Relative Effectiveness of Recent Reforms

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<sup>3</sup> The inside counsel respondents were predominantly from firms that were public or had over \$100M in revenue and were mostly technology companies. Sixty-five percent of outside counsel respondents had over 10 years of litigation experience, 12% primarily represented defendants, 34% primarily represented defendants, and the majority – 54% – equally represented both plaintiffs and defendants. (See Appendix A for complete description)

<sup>4</sup> If both groups ranked items in exactly the same way, the Relative Order Agreement was 100%.



Table 1: The Relative Effectiveness of Recent Reforms

***Please rate the following recent reforms for their effectiveness in increasing the efficiency of patent cases. (0%=least effective, 100% = most effective. See Appendix A for details)***

<b>Reform Description</b>	<b>Inside Counsel Effectiveness Rating<sup>5</sup> (N=106)</b>	<b>Reform Description</b>	<b>Outside Counsel Effectiveness Rating (N=394)</b>
Implementation of FCAC e-Discovery Model Order	41%	Post-grant patent challenges	46%
Damages reform	39%	Implementation of FCAC e-Discovery Model Order	45%
Post-grant patent challenges	35%	Patent Pilot program	36%
Misjoinder rules	30%	Damages reform	34%
Patent Pilot program	14%	Misjoinder rules	30%
<b>RELATIVE ORDER AGREEMENT = 30%<sup>6</sup></b>			

### 1. Overall

Among recent reforms, the FCAC e-Discovery model order had the highest combined score among the two respondent groups (inside and outside counsel), with an overall effectiveness rating of 41% and 45%, among inside and outside counsel respondents, respectively. However, there was less agreement about current reforms and also a sense that they were less effective, as compared to specific case management practices or proposed reforms as described in the sections below.

The comments consistently communicated two messages:

First, across most reforms, the implementation of each intervention and therefore effectiveness varied widely by jurisdiction and by judge: e.g. “District courts are uneven at policing [] issues before trial”; “I still see a huge disparity among the courts' e-Discovery rules and standards,” the “Patent Pilot program has the huge potential of harmonizing local rules and approaches in various courts but this is going to take time to trickle through those courts and will depend on the influence the judges in the program have,” responded attorneys. The

<sup>5</sup> See Appendix A for methodology for calculating overall effectiveness rating.

<sup>6</sup> See Appendix A for methodology for calculating relative order agreement.

discretion given to judges was cited as the source of “too much” variance between courts, in some attorneys’ opinions: “[o]ther than the misjoinder rules, all of the other programs leave too much leeway for court variance because they are either not the law, or (in the case of damages reform) provide insufficient clear guidelines that district courts must follow. Without meaningful venue reform, districts with no real interest in the parties will continue to attract patent litigation because of their pro-plaintiff tendencies.” Several comments reflected the sentiment that: “Judges need to roll up sleeves and get involved early”; “Until we have judges that are more active in actually controlling litigation costs –[ ]and that can be done under the existing rules -- we will not have true reform.”

Second, for post-grant challenges, as well as the long-term impact of interventions, it was too early to gauge their effectiveness. Comments like: “There has been little, if any, change in [patent abuses],” were balanced by comments like, “too soon to say re: Post-Grant Patent Challenges,” and “[a]ll somewhat effective since it’s too early to tell how effective these trends are long term.”

## 2. FCAC E-Discovery model order

Many of the comments were positive about the real impact on cases of the FCAC order: “We implemented a variation of the Federal Circuit [e-]discovery model order and avoided email discovery altogether on a major litigation, avoiding hundreds of thousands of dollars in costs and numerous fights with plaintiffs (and thereby removing a potential pain point that plaintiffs could have used).” An interviewee commented on how the order, whether expressly implemented or not, “changed the norm,” a comment reinforced by the survey answer: “it has created some balance and is helping to avoid the ‘I want everything from everyone for all time’ approach. Another commenter saw the order as a tool for educating judges, who would then take the lesson or not, stating that the order “has pushed some willing judges to recognize the inefficiency of much discovery in patent cases. In some cases, judges have made meaningful reform in this regard, other judges would simply rather not deal with it and so view all discovery as open.” Improvements in e-Discovery were observed even in districts that had not taken up the FCAC order “E-Discovery modifications, not necessarily those advocated by the Federal Circuit, have been effective in many of my cases.”

However others thought there was still a lot of room for improvement. Some thought despite the rules, “it is still just an enormous volume of information to sort through during discovery.” Among those who thought the rules could be improved, “[t]he implementation of the e-Discovery rules have not been that effective from what I have seen so far. While I thought that they would be helpful, the reality is that parties use these rules now to effectively avoid any real production of electronic discovery, which I find to be very disappointing.” “e-Discovery requires case-by-case decisions, not rules of thumb,” were two sentiments. The savings varied in size: “This varies pretty widely. Sometimes it can be substantial, other times not.” The relevance of the order also depended on case size: “The e-Discovery model order certainly has benefits for large cases, but increases the costs for small cases. If implementing the e-Discovery

procedures costs a minimum of \$50k, it effectively removes litigation as an option where less than \$250k is in dispute.”

Additional details about particular e-Discovery practices are provided below.

### 3. Damages Reform

The reform of damages law also received mixed reviews, reflecting the challenge of dealing with a law in flux: “[a] lot of good ideas in the case law, but the practical upshot is very hard for plaintiffs to work out. Damages reform has introduced more uncertainty into the process making cases more complex and expensive for all parties. This uncertainty makes settlements and licenses more difficult to achieve.” “Damages have becoming increasingly confused and the theories argued by NPEs [non-practicing entities] have added to it.” Evidentiary rulings were blamed for part of this uncertainty; some comments thought judges needed to, more often, “grant Daubert motions to exclude moonshot damages figures and abuses of the entire-market-value rule.” Others though more procedural reforms were needed: “I am not sure a measurable effect will be seen until a district implements early damages contentions/disclosures and/or other mechanisms to bring damages contentions to light before other events such as Markman and summary judgment” wrote one respondent.

### 4. Post-Grant Patent Challenges

The main comment was that “[i]t is too soon to tell re post-grant and damages reform.” One respondent noted the expense of filing post-grant review against NPEs with many claims: “The fees for post-grant review are very high when one considers that NPE patents have dozens if not hundreds of independent claims that have to be challenged.”

However, answers to a related question made clear that the effectiveness of these reforms depended on how long they took, whether or not the court stayed litigation in the meantime, and the result: “From what I have seen it is just duplicative and runs up costs, since the courts rarely stay litigation pending re-exam. Also, once the patent comes out of reexam [sic], the focus of the claims often shifts and you end up re-doing many parts of discovery.” One outside counsel who primarily represents plaintiffs stated that “[a]lthough the initial milestones in the reexamination process are done on an expedited basis, the entire length of the reexamination can take years. When a case is stayed during the pendency of the reexam [sic], it seems to at least double the time of the litigation.” The only time this was found beneficial is “only to the extent it gets a stay in the litigation - otherwise, complicates matters esp. if there are inconsistent claim constructions applied.” And “[i]f claims are amended or cancelled, it can be helpful...but if not, it has been a costly detour.”

### 5. Misjoinder Rules

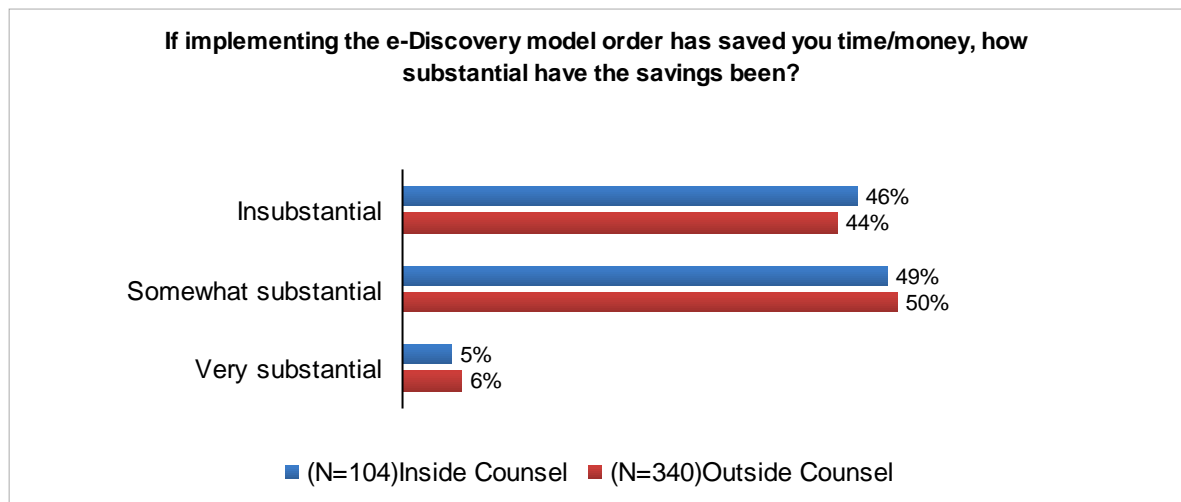
The misjoinder rules received relatively low remarks on efficiency relative to other recent reforms. The comments reflected a belief that this inefficiency is due in part because the

rules are circumventable and go against consolidation, and that how the rules will be implemented is still evolving: “the misjoinder rules have created a lot of collateral litigation, which can be a useful tactic for defendants against NPEs, but doesn't go to ‘efficiency’ per se”; “misjoinder rules tend to make the Court less efficient by moving cases that could be consolidated for pretrial purposes around the country to burden numerous different courts with implementing parallel proceedings”; “Multi-district litigation procedures would tend to weigh against separating the cases. The misjoinder rules are leading to more ITC cases which are very expensive” were three sentiments. Some districts were seen as not honoring the spirit of the law: “[M]isjoinder rules of AIA are also effective. Consolidation and denial of transfer, however, [] makes a mockery of the process.”

## B. Specific Findings Regarding e-Discovery

### 1. Savings of Time/Money

**FIG 1:** The Effectiveness of the e-Discovery Model Order



A majority of inside and outside counsels reported saving time and money due to the implementation of variants of the e-Discovery model order (FIG 1). However, large numbers of respondents also found the savings to be insubstantial, presumably for the reasons discussed earlier – large variations across courts in implementation, and a lack of a one-size fits all way of increasing efficiency across e-Discovery.

### 2. Specific e-Discovery Model Order Principles

Table 2: e-Discovery Model Order Principles' Effect on Discovery Costs

***How effective are the following e-Discovery model order principles at reducing discovery costs? (0%=least effective, 100% = most effective. See Appendix A for details)***

Reform Description	Inside Counsel Effectiveness Rating (N=106)	Reform Description	Inside Counsel Effectiveness Rating (N=394)
Restrictions on email discovery requests	66%	Restrictions on email discovery requests	63%
Limits on custodians	65%	Limits on custodians	62%
Limits on search terms	56%	Limited/no waiver of privilege	56%
Cost-shifting	49%	Limits on search terms	52%
Non-production of metadata	46%	Non-production of metadata	51%
Limited/no waiver of privilege	40%	Cost-shifting	44%
<b>RELATIVE ORDER AGREEMENT = 60%</b>			

There was consensus on several points regarding specific aspects of the e-Discovery model order. Both inside and outside counsels viewed restrictions on email discovery requests as the most effective practice concerning the e-Discovery model order. Inside counsels gave the practice an overall effectiveness rating of 66%, while outside counsels evaluated it at 63% effective. Both sets of respondents valued custodial limits as the second most effective practice, with inside counsels giving it a 65% rating versus 62% for outside counsels. Evaluating these processes, one commenter said, “The limitation on e-mail custodians is key in reducing unnecessary cost and burden in patent cases, where liability rarely (if ever) turns on email evidence”; “the ability to limit custodians and the amount of data that you pull into the system can substantially reduce the cost of document discovery” said another.

Beyond that, inside counsels saw limitations on search terms as 56% effective, while outside counsels rated the practice at 52%. Inside counsels were less enthusiastic about cost-shifting, the non-production of metadata, and limitations on waivers of privileges, rating these practices as 49%, 46%, and 40% effective. By contrast, outside counsels gave waivers a 56% overall effectiveness rating. They rated limitations on search terms 52% effective, and the non-production of metadata 51%. Only cost-shifting failed to receive at least a 50% effectiveness rating by outside counsels, who deemed the practice only 44% effective.

Outside counsel write-in responses to the question on the effectiveness of e-Discovery model principles on increasing the efficiency of litigation echoed the data supporting a preponderance of “somewhat effective” opinions. Limits on search terms was noted as being “difficult due to difficulty of opponent in knowing how competitor internally names products” One lawyer questioned “how effective these limitations are outside of simply reducing the number of documents produced,” although that could itself be a huge benefit. Another voiced that “[e]xcessive email collections from large numbers of custodians are rarely relevant or necessary for litigating patent cases and had often been used by trolls simply to raise the cost of defense.” Several respondents expressed concern over judges’ reluctance to implement cost-shifting measures with one noting “I haven’t seen any evidence that cost-shifting has been employed.” Altogether, it seems that, as one respondent put it, “all have the potential to be very effective” and “although...opposing counsel agree to these type of limits, and this have been very effective at cost savings...courts [have not] enforce[d] these rules yet.”

### 3. Division of Labor in e-Discovery

In response to queries from judges, we asked outside counsel to identify who did what e-Discovery tasks. In terms of e-Discovery tasks, in-house counsel was generally reported as responsible for identifying document custodians and obtaining data from hard drives or servers, while outside counsel were more likely to own the vendor relationship for processing. Custodian interviews were more evenly split between in-house and outside counsel.

Table 3: Distribution of e-Discovery task burden***Who oversees the following e-Discovery tasks?***

<b>Task</b>	<b>Mostly in-house counsel</b>	<b>Mostly outside counsel</b>	<b>Split</b>	<b>In-house counsel responses</b>
<b>Identifies document custodians and central sources</b>	43% (142)	17% (55)	40% (133)	330
<b>Schedule and conducts custodian interviews</b>	21% (69)	36% (117)	43% (142)	328
<b>Obtains data from hard drives and email servers</b>	47% (155)	24% (80)	28% (93)	328
<b>Owns the vendor relationship for processing and hosting</b>	14% (46)	58% (190)	28% (90)	326

Outside counsel reported, unsurprisingly, that the answer varied by client. As one respondent put it: “Depends on size and sophistication of client. Small-mid-size clients have no in-house discovery support and we typically handle the entire process as outside counsel. Larger, more sophisticated clients, have in-house discovery teams that work with outside counsel to identify and pull data.” The contrast between clients could be dramatic, “For some of our larger clients, they have internally teams that handle the collections and have contracts with vendors to handle the e-Discovery tasks. For smaller client, the work is almost exclusively performed by outside counsel directing vendors of their choice to handle the tasks.”

**III. Case Management**

We asked inside and outside counsel to evaluate the effectiveness of specific case management practices, including with respect to claim construction, specific practices like mediation and using magistrates, and timing.

**Table 4: Effectiveness of Claim Construction Practices***(0%=least effective, 100% = most effective. See Appendix A for details)*

<b>Claim Construction Item</b>	<b>Inside Counsel Effectiveness Rating (N=93)</b>	<b>Claim Construction Item</b>	<b>Outside Counsel Effectiveness Rating (N=315)</b>
Limiting number of asserted claims	68%	Early claim construction	71%
Discovery only after claim construction	68%	Limiting number of asserted claims	61%
Early claim construction	66%	Limiting claim construction terms	51%
Limiting claim construction terms	50%	Discovery only after claim construction	44%
Carrying out claim construction ... w summary judgment	35%	Carrying out claim construction ... w summary judgment	34%
<b>RELATIVE ORDER AGREEMENT = 50%</b>			

A number of claim construction practices were seen as quite effective with reasonable agreement between inside and outside counsel.

A. Claim Construction

1. Limiting Numbers of Asserted Claims

Inside counsels valued limiting the number asserted claims as the most effective practice in the area of claim construction, with an overall effectiveness rating of 68%. Outside counsels generally concurred, giving the practice an overall rating of 51%. One commentator noted that the “use of single issue claim construction and summary judgment in early cases is very effective,” adding that it “can be dispositive and should be considered everywhere.”

2. Early Claim Construction

Both inside and outside counsels rated early claim construction well, with inside counsels giving it an overall effectiveness rating of 66% versus 71% from the outside counsels. But opinions varied: one outside counsel argued: “I do not like early claim construction. No one wants to be locked out of an argument they might want to make later. Therefore, it is far more



contentious than it needs to be... Too often, early claim construction is a big fight, and then the Court has to construe claims during later summary judgment anyway, because the views of the parties have evolved so much in the interim.” The more predominant view was expressed by this comment: “Having a discovery limited to Markman issues and a Markman order before full blown discovery is a good start in the interest of efficiency. Deference to fact finding aspects of Markman would further assist. Under the current de novo review standard, some meaningful opportunity for interlocutory review would be helpful.”

Other respondents added further qualifications, with one inside counsel answering that “[e]arly claim construction can be quite helpful” presuming “that there will be a fair view” of such a claim. Respondent went on to note that “[a]n early construction that is plaintiff-biased is not very helpful” and can lead to “excessive rewards” on an “invalid patent because companies cannot afford to take the risk of a loss to a trial, even if they believe that a loss would be reversed on appeal.” Others pointed to the necessity of “decisive” judges in dealing with claim construction, noting that in order to be effective, the claim construction must be “actually issued within a short time after the hearing.”

### 3. Combining Claim Construction with Summary Judgment

Most thought that combining claim construction with summary judgment was not effective, giving it the lowest marks among the various practices (35% and 34% among inside and outside counsel, respectively). There was a perception that “Combining claim construction with summary judgment is great for the Court (only do it once) but terrible for the parties, because it comes too late in the process. That technique is only good for the litigants if the Court will entertain early SJ on particular issues that the parties identify as worthwhile early in the process.” Along the same vein: “Different courts have different attitudes toward granting summary judgment motions, which makes the effectiveness of ‘carrying out claim construction contemporaneously with summary judgment motions’ vary widely.” The problem with combining both practices, said one practitioner, was that “inevitably, when claim construction is handled with summary judgment there is a need for more discovery (especially expert discovery) and possibly amended invalidity and infringement contentions. Also if the Court adopts a construction not proposed by either party, or a hybrid, experts need to be given a chance to supplement opinions etc. if that is a basis for summary judgment.” Yet some were positive: “claim construction during summary judgment forces parties to focus on terms that matter, not just terms about which they can think of a disagreement.”

### 4. Other Claim Construction Practices

Mixed reviews were given to other practices. Inside counsels rated 68% effective the practice of having discovery only after claim construction. Outside counsels disagreed and reported the practice as being 44% effective. Both sets of counsels gave limiting claim construction terms about a 50% approval rating. Few comments were given on either practice.

B. Specific Case Management Practices

**Table 5: Effectiveness of Specific Case Management Practices**  
*(0%=least effective, 100% = most effective. See Appendix A for details)*

Practice	Inside Counsel Effectiveness Rating (N=90)	Practice	Outside Counsel Effectiveness Rating (N=316)
Requiring meaningful answers to infringement contentions	54%	Requiring meaningful answers to infringement contentions	70%
Using magistrate judges or specialized experts...	46%	Streamlined discovery...	60%
Streamlined discovery...	38%	Using magistrate judges or specialized experts...	56%
Court-ordered mediation	27%	Court-ordered mediation	40%
<b>RELATIVE ORDER AGREEMENT = 80%</b>			

1. Overview

The survey revealed some consensus among inside and outside counsels as to the effectiveness of certain specific practices in litigation. Across all four categories, the outside counsel respondents responded more positively towards specific practices than the inside counsel. On both sides, requiring meaningful answers to infringement contentions ranked highest across the four practices. Court-ordered mediation was ranked least effective among the four practices. Streamlined discovery was the only category showing substantial disagreement between the two groups, with the outside counsel viewing it 22% more effective than the inside counsel (likely due to the financial burden of discovery falling on inside counsel budgets). While requiring meaningful answers to infringement contentions was the clear favorite among the four categories, none of the other specific practices rated very highly. As one outside counsel responded: “in practice, these are all a mixed bag.”

2. Meaningful Answers to Infringement Contentions

Both inside and outside counsels deemed requiring meaningful answers to infringement contentions to be effective, although inside counsels less so than outside counsels (54% vs. 70% effectiveness rating, respectfully). Answers to infringement contentions allowed the whole case to be more streamlined, according to comments such as, “Requiring and holding parties to

meaningful infringement contentions is key.” Parties commented that: “having detailed infringement contentions is very helpful.” Another other counsel further commented “allowing expedited summary judgment based on the infringement contentions may help.”

But the answers really had to be meaningful – as one outside counsel commented about “litigat[ing] in a district that required formalized responses to both infringement and invalidity contentions” – they were “each [] wasteful exercises, and largely boilerplate reservations of rights.” Another outside counsel stated: “Infringement contentions are a waste of resources and should be done away with -- S.D.N.Y. for instance limits interrogatories to just identification of documents and witnesses. If the parties identify claims/products in suit, the rest can be understood from documents.”

### 3. Magistrate Judges/Specialized Experts

Counsels gave diverging ratings to the use of magistrate judges or special expert, with a rating of 46% for inside counsels versus 56% for outside counsels. Comments were generally favorable about special masters, and couched regarding magistrates.

Special masters were praised for their ability to provide relief to the courts and the parties: “Use of special masters can be very effective because a knowledgeable, impartial special master who is trusted by the court can cut through bogus arguments by a party's attorneys”; “courts would benefit tremendously from using technical advisors/special masters/etc. more frequently.” An outside counsel noted “special master[s] can be very effective in getting to a good claim construction”... “[i]f the judge is reluctant to dive deeply into claim construction.”

Magistrates received more mixed reviews. “Use of Magistrate Judges can be somewhat effective if (i) the District Court Judge in the case is otherwise too overloaded to give prompt attention to discovery disputes, (ii) the Magistrate Judge is knowledgeable and hardworking and gives prompt attention to the disputes, and (iii) the District Court Judge backs decisions by the Magistrate Judge absent some clear-cut basis for holding otherwise.” Others, however, felt that “Mag [sic] judge usually are a bad option. They lack decisiveness, experience and authority. And they get appealed. Only good for some discovery disputes.”

Part of the issue with the effectiveness of magistrates one noted “is a loss of continuity at trial” and that they “can add great expense and their cautious nature seems to reward bad behavior.” Another is that a magistrate can “needlessly compound[] the case, leading to rounds of objections and appeals” and “lengthens the time for resolution and injects ambiguity during the discovery phase which typically is ongoing during the appeal of the Magistrate's ruling.” As one commentator suggested: “Mostly ALL of the above depend on the judge.”

### 4. Streamlined Discovery

The greatest area of disagreement with respect to specific practices was seen in the evaluation of the effectiveness of streamlined discovery. Outside counsels gave the practice an overall effectiveness rating of 60%, compared to a rating of just 38% from inside counsels.

The inside counsel comments emphasized competing interests in discovery: “Streamlined letter briefing can be highly effective to speed resolution of issues. That said, the courts should be careful in allowing adequate space and time to address more complex issues.” The outside counsels also addressed the necessity of managing this process carefully: “letters instead of briefs are effective in some instances” and “discovery letter briefs are most effective when they're joint -- this forces counsel to explicitly disclose and support their views to one another. Otherwise, meet & confer dialog often doesn't discuss case law applying the FRCP or local rules, so one party might be surprised at the scope of a rule if the other side finds a favorable case.”

Among the outside counsels who did not view streamlined discovery as effective, one noted, “I have seen lawyers, particularly in the ND of Cal, use the lengthy meet and confer and joint letter process to stonewall and avoid producing discovery. The lack of the ability to get a motion to compel encourages the very behavior the Judges are trying to prevent.” Instead the same commentator recommended: “motions to compel and the availability of a discovery hotline (ED Tex) create far more efficient discovery than the joint letter process.” Another mentioned that a “judge’s failures to timely rule on discovery disputes” was “one of the biggest problems I have seen over my career.”

#### 5. Court Ordered Mediation

Finally, both inside and outside counsel rated court-ordered mediation as the least effective practice, with inside counsels rating its effectiveness at 27% versus 40% for outside counsels.

One outside counsel who sits as a member of a court mediation panel stated: “it pains me to say that court-ordered mediation is not effective. My experience, though, is that mediation is effective only when the parties are ready to mediate. ‘Court-ordered mediation’ can come off as a mom telling a school-aged child that they have to be friends with someone.” This commentator also posed the recommendation that “some sort of “pre-mediation” program might be helpful...where parties can talk to a mediator (including ex parte communications) and identify what needs to be done (like formal discovery or coaching of parties on mediation and settlement) in order to convene an effective mediation.”

Another outside counsel who favored the use of magistrates in overseeing discovery but only found them somewhat effective in mediation stated: “the USMJ's of the EDVA oversee discovery in all civil cases with extraordinary effectiveness,” however, “USMJ mediation of patent cases is only somewhat effective, depending on the level of skill and knowledge of the USMJ (who neither practiced patent litigation nor preside regularly over patent trials).”

One respondent perceived difficulty on the part of the mediator in accurately processing specific technical issues surrounding complex patent litigation: “I do not find that most mediators understand patent cases, and the timing is usually either too early or late.” Another commentator also emphasized the importance of timing: “Mediation is only effective if the timing is right; thus, if it is court ordered, it works best when the parties are given a large window of time in which to conduct the mediation.”

#### A. Timing

**Table 6: Effectiveness of Courtroom Practices at Reducing Litigation Costs**

***How effective are the following courtroom practices at reducing litigation costs?  
(0%=least effective, 100% = most effective. See Appendix A for details)***

<b>Timing Requirement</b>	<b>Inside Counsel Effectiveness Rating (N=93)</b>	<b>Timing Requirement</b>	<b>Outside Counsel Effectiveness Rating (N=313)</b>
Timely decision on SJ motion	85%	Timely decision on SJ motion	86%
Stays for reexamination or other post-grant review	83%	Timely decisions on transfer motions	71%
Timely decisions on transfer motions	73%	Stays for reexamination or other post-grant review	57%
Delaying damages discovery until a ruling on validity	57%	Firm trial date (no extensions)	56%
Damages bifurcation	52%	Damages bifurcation	46%
Firm trial date (no extensions)	41%	Delaying damages discovery until a ruling on validity	46%
Invalidity contentions before infringement contentions	27%	Invalidity contentions before infringement contentions	21%
<b>RELATIVE ORDER AGREEMENT = 82%</b>			

#### 1. Overview

The highest ratings given to any intervention on this survey and greatest area of consensus among inside and outside counsels concerned timing (relative order agreement of 82%). Both groups of respondents found timely decisions on summary judgment motions to be the most effective practice of any practice, intervention, or development on the entire survey. Timely SJ received an overall effectiveness rating of 85% from inside counsels and 86% from outside counsels. Both sets of respondents also viewed timely decisions on transfer motions as highly effective for increasing efficiency, with the practice receiving a 73% rating from inside counsels and 71% from outside counsels. In a similar vein but on the opposite spectrum, both groups rated invalidity contentions before infringement contentions as least effective, receiving a mere 27% and 21% positive response rating from the inside counsel and outside counsel, respectively.

Areas of less consensus included stays for reexamination or other post-grant review which inside counsel rated highly (83%), especially as compared to outside counsel (57%), and firm trial dates (no extensions), which got 41% and 56% approval ratings from inside and outside counsel, respectively.

## 2. Timely decision on SJ motion

As mentioned above, both inside and outside counsels rated timely decisions on SJ motions to be the most effective practice. However, it depended in part on what was decided: one outside counsel noted that timely “decision on a motion for summary judgment is helpful only if a meaningful decision on the merits is made as compared with routine dismissals of such motions.” Another theme that was echoed in a number of comments was that “patent cases tend to be over-litigated by patent lawyers, who, by nature, seem to see the world in black and white. If you add to that over-management by the court, such as routinely bifurcating discovery or damages, you will routinely increase litigation expenses in most cases.” The implication seemed to be that early decisions could prevent this over-litigation.

## 3. Timely decisions on transfer motions

Both groups of respondents evaluated the practice of timely decisions on transfer motions highly, with 73% of inside counsels rating the practices as effective versus 71% of outside counsels. One outside counsel respondent declared that if “courts would decide transfer motions and SJ motions [quickly], then litigation would be substantially more efficient.” Another said: “[w]ith certainty regarding venue and validity, both parties would be much more able to value the case, and thus determine an appropriate settlement.”

## 4. Stays for reexamination or other post-grant review

Inside counsels rated the practice of staying litigation in lieu of reexamination or post-grant review more favorably than outside counsels did (83% v. 57%). One outside counsel declared that stays “can be abused” and that courts “would be better served by placing stricter limits on the length of stays, to avoid defendants extending them by filing multiple, serial

reexam requests.” Another outside counsel noted that stays “are simply a delay tactic that only benefits defense counsel (because it increases their fees in the long run)” and that stays do not “provide an overall benefit to defendants . . . because they will end up paying more in the end.”

5. Delaying damages discovery until a ruling on validity

Respondents were divided on the practice of delaying damages discovery until a validity ruling is handed down. Inside counsels deemed the practice effective, and gave it an overall rating of 57%. By contrast, outside counsels deemed it moderately ineffective, giving it a rating of 46%. Some outside counsels issued decidedly positive comments on the practice. One remarked that “[d]amages discovery is extremely time consuming and costly. As a result, holding off damages discovery until the issue of liability is resolved is a very effective way by which the Court can conserve both its own and the parties' resources.” But another stated that “[d]amages discovery should not be delayed because both sides should know what's at stake and whether it is truly worth fighting about before investing too much in litigation,” and, in that same vein “[b]ifurcating or delaying damages discovery delays litigation and makes it more [inefficient]. Inevitably duplicate discovery needs to take place and more importantly you cannot determine issues regarding how important discovery is under Rule 26(b)(3) . . . without knowing damages. The best way to get cases resolved early is [early] damages discovery because plaintiffs and defendants can see what a case may be worth . . . [and their] exposure very early.”

6. Damages bifurcation

Relatedly, respondents gave mixed reviews to damages bifurcation, with inside counsels slightly more in favor of the practice than outside counsels (52% versus 46%). The comments mostly reflect that bifurcation is neither one size nor does it fit all. That is to say, damages discovery can happen early or late, and there is a case for bifurcating in high stakes cases, as the savings from avoided damages discovery is high, as well for bifurcating in smaller cases, as knowing upfront the exposure may cause parties to settle. One outside counsel noted that bifurcation “of damages dilutes risk picture and/or postpones risk,” a practice that “[d]elays settlement.” Another stated that “[d]amage bifurcation only makes sense on [really] big cases. On small and medium-[sized] cases, it's just as easy to pull the [documents] and address damages along with all the other issues.” Still another outside counsel argued that — when “the litigation costs vastly exceed the amount in controversy,” courts should “consider bifurcating damages and doing discovery and proceedings on damages [first], not last.” One outside counsel qualified his support for the practice, stating that damages “bifurcation is great, but only if the case is resolved in phase I. If it isn't, bifurcation doubles the cost.” Finally, another outside counsel declared that a “huge part of the discovery burden in a patent case is damages” and that “[r]outine bifurcation could really streamline things.”

7. Firm trial date (no extensions)

While inside counsel leaned against the practice of establishing a firm trial date with no exceptions, giving it an effectiveness rating of just 41%, outside counsels tended to support it (56%). One outside counsel declared that “[f]irm trial dates are the norm in the [Eastern District of Virginia], and force parties to put up or shut up.” Another noted that “[e]arly discovery and firm trial date force cases to move along.” By contrast, an inside counsel was less enthusiastic about the practice, stating: “My recent experience of firm trial dates is that they are merely a device to drive settlement, mostly from defendants. This over-rewards weak patents, this is particularly acute in pre-AIA cases.”

#### IV. Special Topics in Patent Litigation

We solicited narrative opinions on two topics: fee-shifting and customer suits. We read through their answers and categorized them into broad themes, as reflected below.

##### A. Fee-Shifting

We asked outside counsel for their opinions about the particular practices that should be subject to fee-shifting or sanction, and received about one hundred outside counsel responses. By far the most common answers pertained to discovery abuses, followed by frivolous claims/defenses. Abuses that tended to be particular to plaintiffs included: evasive discovery responses, overly burdensome or excessive discovery requests, frivolous/meritless claims, and unreasonable claim construction positions. Abuses particular to defendants included: stalling or failing to provide requested information, hiding non-infringement positions, and unreasonably delaying or asking for late for trial dates.

Table 7: Bases for Fee-Shifting

***What courtroom practices, if any, do you think should be subject to fee-shifting or sanction? Please indicate in your response whether the behavior is particular to defendants or plaintiffs.***

<b>Area of Litigation Behavior</b>	<b>Proportion of Mentions in Responses (N=95)</b>
Discovery	47%
Frivolous/meritless claims and defenses	25%
Other	17%
None	8%

##### 1. Discovery Abuse

A substantial number of respondents (47%) indicated that discovery abuse by plaintiffs and/or defendants should be addressed. The complaints of those respondents who were



specific in their answers generally fell within one of three areas: (1) withholding/obstructing discovery, (2) overly broad, burdensome or excessive discovery, (3) “burying with discovery.” Most of the more detailed responses stated that both defendants and plaintiffs engaged in discovery abuses.

a. Withholding/Obstructing Discovery

About a third of responses said that withholding/obstructing discovery should be sanctioned. Respondents mentioned: “[f]ailing to disclose important documents, destruction of documents” and “[e]vasive discovery responses which require needless motions even after conference of counsel” as areas of concern. Defendant’s counsels mentioned scenarios in which a patent holding “plaintiff abuses the Privilege log and hides hundreds of documents unjustifiably---and a court grants a motion to compel production of such docs” and “evasive discovery responses... [w]hen [sic] [plaintiffs] don’t have a case...[o]ur system encourages dice rolling with little downside.”

From the vantage point of the plaintiffs’ lawyer, discovery abuses were described as “refusal to comply with legitimate discovery requests (often by defendants),” “stalling document production,” and “engaging in repeated work gamesmanship during discovery.”

b. Overly Broad, Burdensome, or Excessive Discovery Requests

A fifth of the responses described abuse in the form of overly broad, burdensome or excessive discovery requests mostly on the part of plaintiffs. Defendants’ counsels complained of “voluminous production of documents no clearly relevant to any case issue” and suggested that plaintiffs “be required to pay the costs of the search for these marginally needed documents (e.g. vendor fees to conduct the search).” They also mentioned “the use of overly burdensome discovery requests.”

One counsel stated: “Discovery is often requested primarily to impose burden, rather than to get information that will actually be used in the litigation. The current standards help shield this conduct. There should be cost/fee shifting for discovery requested which was not actually used in the case or leveraged to get information that was used. Maybe there could be a safety valve to deny cost/fee shifting if the requesting party articulated at the time of the requests what information it believes it will receive and how it believes believe that information will be useful in the case.”

c. Burying with Discovery

A few responses mentioned the problem of “burying with discovery,” noting: “Big business law firms burying small inventors with a ton of paper,” and “[d]ocument “dumping” may be a candidate...in districts that have not implemented the e-Discovery model order (and probably others).” It was suggested by one commentator that “a more streamlined process for

parties identifying custodians, search terms and document types in a manner that will avoid overproduction of meaningless and duplicative documents” be made.

## 2. Frivolous/Meritless Claims

A quarter of respondents stated that fee shifting and/or sanctions should apply when a party asserts frivolous/meritless claims and/or defenses, and most of the party-specific claims suggested that the patent holder is the main source of the problem. Respondents suggested that “[t]here should be greater fee shifting if on balance the parties assertions do not pass muster under a reasonable person standard” and “[i]n most cases there are a few issues that the parties should be putting to a jury [sic]. More cost shifting should occur for parties who . . . refuse to concede issues not worthy of jury determination. Courts do not even use the powers they have, so likely will not use greater power.”

The responses called out the filing of frivolous or vague claims in particular, “[f]iling litigation with little regard for the merits of infringement allegations as a means of monetizing patents held by non-practicing entities (plaintiffs),” or that “plaintiffs should not be able to get away with maintaining a frivolous case,” or “bare-bones complaints.” They called for “fee shifting if defendants have to file motions to get the pleading amended with more specificity.” One respondent wanted “to see a more thorough examination up front of plaintiffs’ compliance with Rule 11’s requirement to conduct proper due diligence before filing suit.” Another thought that a bar should be set “If a patent plaintiff cannot submit a claim construction and a claim chart reading upon a specific accused product or method very early in the case, counsel has not done an adequate pre-filing investigation” and suggested that the “conduct should be sanctioned.”

## 3. Claim Construction

Several responses referred to unreasonable/meritless claim construction behavior. Among these, answers stated that “[t]he courts need to be more willing to award fees or frivolous claims, including shifting positions on the scope of the patent or extending invention beyond what was contemplated in order to cover products developed much later and which bear no relationship to the underlying invention” and reported “positions on claim construction refuted by prosecution history,” as well as “[c]ontinuing to litigate when the claim construction makes the outcome predetermined.”

## 4. Failure to Disclose Positions

A few respondents found problematic: “[f]ailing to disclose fulsome infringement contentions,” and “[h]iding your trial infringement/non-infringement/validity/invalidity position until trial...drives up costs. Lots of legitimate plaintiffs would prefer to hear early in the case if there's a lay down winner on non-infringement.”

5. Lying to the Court or Opposing Counsel

A few respondents indicated that “[l]ying to the Court or opposing counsel” should be sanctioned. One suggestion made was that “[w]hen demonstrably false statements are made in court or in briefing, the Court should highly scrutinize the nature and circumstances of the statements and open the possibility of sanctions. Too often, false statements are brushed aside without care or comment. I do not think the behavior is particular to either side.”

6. Patent Troll-Specific Fee Shifting/Sanctions

A handful of responses indicated that patent “trolls” should receive disproportionate treatment. One response warned, however, that fee shifting is “too subjective and should be used with extreme caution. Often a judge simply dislikes one party and thus sanctions without cause. (no, I have never been sanctioned) I think true Trolls (NOT NPS's) should pay half the legal fees of the defendants when they lose.” Another stated that the “Proposed SHIELD act shows some promise (NPE loser pays), but is full of loopholes and could impact legitimate companies seeking to monetize IP. If these issues can be resolved it is a step in the right direction.”

More favorable responses include: “I am a fan of the SHIELD Act (except for the bond provision). I think that discovery costs should be shifted, especially in NPE cases, where e-Discovery burdens are often radically imbalanced,” and “I think that any non-practicing entity should be forced to pay defendant's costs and attorneys' fees if defendant prevails on summary judgment of noninfringement and/or invalidity.”

7. Delay

A few responses discussed acts by defendants to cause delay mentioning: “any tactic to delay, usually defendant...” and “Defendants asking for trial dates 2+ years after the date of filing. There is no good reason, unless the parties stipulate to it, for a plaintiff to have to wait over two years for a trial date on an issued patent, regardless how big the case is. The delay has gotten to the point that people won't have confidence in the patent system.”

8. No Changes to Current Practices

Less than 10 percent of respondents stated that there should be no changes to current fee-shifting practices stating for example, “[s]anctions and cost-shifting are VERY difficult to manage in the real world,” and “[w]e have enough motions already. Threats like this won't change that; it might just limit further the number of suits filed.”

One of the more interesting responses: “I think the rules for fee shifting are acceptable. Again, I am not seeing any “abuses” just defendants crying that they should not get sued simply because a plaintiff does not make/sell the patented product. If that is the problem amend the constitution which gives Congress the right to give inventors the EXCLUSIVE right to their

inventions to use (or not use) as they please. Many companies achieved their success based on their patent protection and now they want to pull up the ladder and never be sued.”

B. Customer Suits

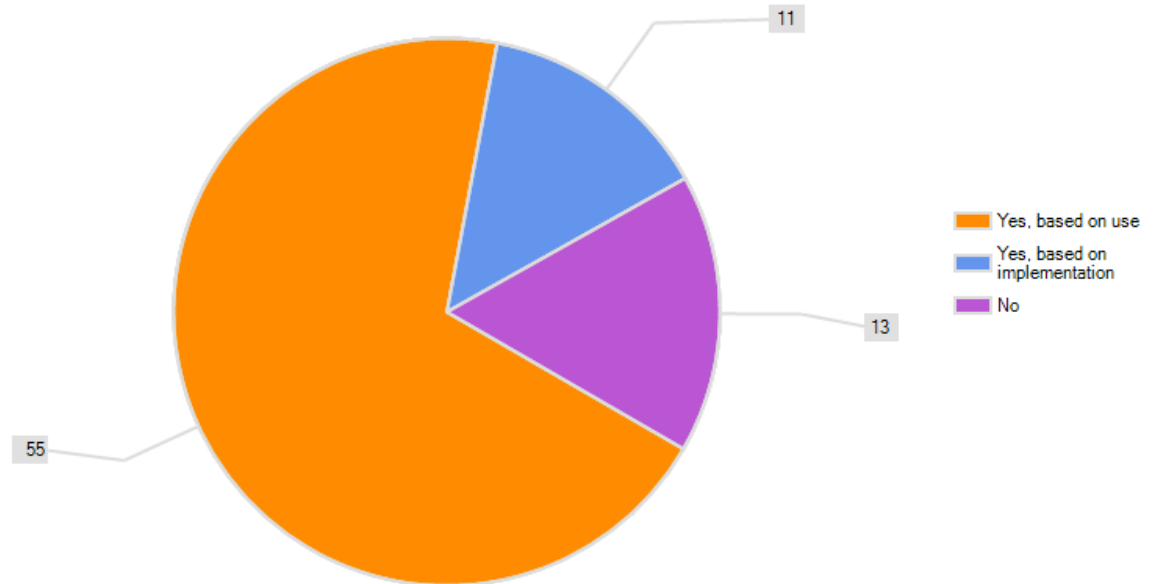
We asked inside and outside counsel about the practice of patentholders suing customers. We asked inside counsel about the prevalence of customer suits from patent assertion entities (PAEs). We also probed the motives for these suits by asking questions of outside counsel.

1. The Prevalence of Customer Suits

We asked inside counsel whether or not their company’s customers had received demands from PAEs based on the use or implementation of the company’s products. Out of 79 inside counsel responses, 69, or 86% indicated they had, the majority based on use of the product, and the remainder based on implementation of the product.

**FIG 2: The Prevalence of Customer Suits**

**Have your customers received demands from PAEs based on use or implementation of your product(s)?**



## 2. The Motivations for Suing or Not Suing a Supplier

### a. Why a Manufacturer/Supplier May Not be Sued

In order to understand the motives for customer suits, we asked outside counsel: *if you have been involved in cases where the user or implementer of a technology was sued, has the manufacturer/supplier also been sued, and why or why not.* In the paragraphs below we summarize about 80 responses.

#### i. Maximize Damages

The most common answer to why a manufacturer may not be sued was to maximize damages. Nearly 20% indicated that the manufacturer was not sued to increase damages. The most common reason indicated by respondents was that suing implementers/suppliers increases the base for damages. One respondent stated: “[p]atentees have not sued the component/software suppliers b/c they have wanted the damages base to be the \$400/500 price of a phone rather than the \$25 price of a chip or the price (sometimes zero) of the software.” This was echoed by other respondents – “it is still sometimes a strategic

consideration because of . . . the potentially larger damages available because of the increase in sales/profits by the customer over the manufacturer”; the potential damages from many dozens or hundreds of end users eclipses the potential damages from the manufacturer. Other than considerations involving the damages base, other respondents indicated that customer/implementer had deeper pockets or the value was realized by the implementer/supplier. One simply said, “[t]he patent owner seeks to maximize the number of defendants to maximize the ‘return.’”

ii. Jurisdictional/Practical Reasons

Another common reason the manufacturer was not sued was for jurisdictional or patent-claim reasons. Out of these respondents, most indicated that the manufacturer was not sued because the manufacturer was foreign. For example, one respondent stated that “generally, manufacturers are overseas.” In addition: “[w]here the patent in suit is method patent, manufacturer may be only liable for indirect infringement, which is more difficult to prove.”

iii. Manufacturers are Harder Targets

Manufacturers were not sued just as commonly because manufacturers were perceived to be the difficult party to be litigating against. Over 10% of respondents indicated this as a reason. Out of those respondents, half indicated that the manufacturer was not sued because the manufacturer knew the technology better. One respondent stated, “[it is more difficult for a user/implementer because] they don’t understand how the accused products work.” Another stated, “Trolls do this because they seek easy money from defendants who have no idea how the technology works.” Another reason that several respondents asserted was because manufacturers/developers have a greater incentive to fight or are in a better position to defend. One of these respondents stated, “[T]he manufacturer is in the best position to litigate non-infringement validity and has the greatest motivation to do so.” Other reasons include “the desire to avoid exhaustion and to avoid settlement with manufacturers first because settlement usually indemnifies downstream users.”

b. Why a Manufacturer/Supplier May be Sued

The most common reason cited for manufacturers being included in the suit was that the manufacturer is expected to indemnify the user. This may include situations where there is an indemnity agreement already in place or where the end user seeks to be indemnified after the end user has been sued. Several respondents indicated such a situation. One respondent stated, “Even if manufacturer/supplier not sued, indemnity issues almost always are raised.” Another stated, “[T]he company was probably not obligated to indemnify, rather they did not oppose because of the business relationship with the implementer.”

Another common reason is to maximize the damages/award and/or maximize the number of defendants. One respondent opined, “Because trolls sue everyone they can.”

Another stated, “The plaintiff may include the manufacturer/supplier as a party to facilitate the presentation of a comprehensive damages theory . . . and if appropriate, to encompass both direct infringers and indirect infringers along the chain.”

#### V. Proposed Reforms to Curb Litigation Abuse

We asked inside and outside counsel to rate the effectiveness of proposed reforms. Greater fee-shifting and sanctions received the highest ratings; inside counsel consistently were more optimistic than outside counsel about the effectiveness of reforms. We received about

Table 9: Effectiveness of Suggested Reforms

*The following reforms have been suggested to curb litigation abuses. In your opinion, how effective would they be at focusing the issues in patent litigation?*

*(0%=least effective, 100% = most effective. See Appendix A for details)*

Proposed Reform	Inside Counsel Effectiveness Rating (N=92)	Proposed Reform	Outside Counsel Effectiveness Rating (N=309)
Greater fee-shifting for prevailing parties	74%	Greater sanctions/fee-shifting for discovery abuse	64%
Greater sanctions/fee-shifting for discovery abuse	73%	Greater fee-shifting for prevailing parties	57%
Heightened pleading standards	70%	Limiting the number of claims and references at issue in a case	55%
Reform of the ITC (“public interest” factors, domestic industry requirement)	68%	Heightened pleading standards	46%
Immunizing end users from patent suits	68%	Reform of the ITC (“public interest” factors, domestic industry requirement)	42%
Limiting the number of claims and references at issue in a case	61%	Greater disclosure of real-party-in-interest	40%
Greater disclosure of real-party-in-interest	49%	Immunizing end users from patent suits	34%
Expanding the covered business method patent program	47%	Expanding the covered business method patent program	30%
Small Claims Court	22%	NA	NA
<b>RELATIVE ORDER AGREEMENT = 79%</b>			

A. Greater Fee-Shifting for Prevailing Parties



Greater fee-shifting was endorsed by both inside and outside counsel particularly in connection with patent “trolls.” The projected impact of fee-shifting was described as follows: “The current fee-shifting standard is far too low. Trolls have no fear about bringing suits of questionable merit because it is so difficult for them to suffer any real consequences. Most defendants will readily take walk-away settlements or very small monetary settlements just to make cases go away, rather than pursuing fees or sanctions motions.” However, there was concern about the disparate impact of fee-shifting: “Fees are only a deterrent to small companies/individuals, but larger companies usually do not care, unless the fees/sanctions are significant. Fee shifting for prevailing parties will greatly hurt the small inventor and allow big business to get away with it.”

B. Greater Sanctions/Fee-Shifting for Discovery Abuse

Greater sanctions/fee-shifting for discovery abuse ranked second highest among the proposed reforms, with 73% and 57% ratings from inside counsel and outside counsel, respectively. The outside counsels responded: “discovery abuse is the single biggest problem in the Hatch-Waxman area” and that “discovery abuse just encourages ‘gotcha’ discovery motions, usually from NPEs as they don't have hardly any documents and thus have no counter point and push defendants to engage in fishing expeditions (without fear of having to do one themselves). We need more strength in awarding fees on truly meritless cases.” Another outside counsel stated: “discovery abuse should be a factor in making a case “exceptional” under existing law.”

One respondent warned against too much reform in this area, causing a major shift in emphasis on the case onto discovery abuses, opening the door to further NPE abuses: “Sanctions/Fee-shifting for alleged discovery abuse may sound like a good idea, but has the potential to transform all cases into ones where the main fights are over alleged discovery abuses. This is a particularly important issue when the plaintiff is a NPE with a small box of documents and the defendant is a large corporation with thousands of employees, e-mail servers, etc. In such cases, NPE counsel may try to shift the focus of the case to alleged discovery abuses (with threats of sanctions and fee shifting) to create leverage for settlement.”

C. Heightened Pleading Standards

While heightened pleading ranked well among inside counsel (70% rating), outside counsel, who only gave a 46% rating, were more concerned that it would cause the pendulum to swing too far the other way. As one counsel put it, “[g]iven the confidential and proprietary nature of accused computer systems, for example, implementation of ‘heightened pleading’ standards may thwart legitimate claims.” A similar sentiment was expressed by counsel who said, “[i]f you raise the pleading requirements how can anyone sue an infringer if the information needed is not publically available?”

D. Reform of the ITC

There were few write-in responses about the ITC in response to this particular question, but in earlier questions, the ITC was repeatedly mentioned as a venue that was sought out because of its lack of particular district court reforms, like the misjoinder rules: “The misjoinder rules are leading to more ITC cases which are very expensive.” “The ITC remains a favorite venue for plaintiffs and the reforms have not helped there much at all.” Some of the specific write-in comments about the ITC were that: “ITC’s e-Discovery rules have yet to be implemented so hard to say if it will save money” and “ITC cases may be reduced with tighter [domestic industry requirements], but unsure if that is actually in the public interest.”

E. Immunizing End Users from Patent Suits

Inside counsel generally favored immunizing end users from patent suits more favorably than did outside counsel. A slight majority of 68% of outside counsel favored immunization, while only 42% of outside counsel voted positively for it. However, while a limitation on liability was generally favored, a complete immunity was not: “end-user immunity probably unrealistic and arguably harmful to goals of patent system. Allowing supplier intervention and stays where supplier and customer agree would beneficially streamline management of litigation and take away the lever of complexity and intimidation. But [it is] also important to limit end-user liability [by basing liability] on value of equipment and not [on] the customer’s business. Some PAEs want small \$ from lots of end users so limiting damages not as important as fee shifting and supplier intervention. But some are swinging for the fences, e.g., x% of your cable bill. Need damages calibration for that.”

In a similar vein, “Staying customer suits seems the most workable, and should become a near de facto answer. It reduces transaction costs and helps avoid over-valuation of patents by providing greater cover to use an EMV damages model. End-user immunity is helpful to limit PAE abuse but it may be overkill in some instances and carries a policy defect that it appears to invalidate classes of patents. Making the supplier a necessary party may not work in all cases. An automatic stay or presumptive stay if a manufacturer steps up, however, avoids these issues -- a court still has some discretion over its docket, the manufacturer’s participation means that there is still a lawsuit for the patent holder, and it has the greatest chance to avoid over-valuing a patent because damages would more likely be based on the smallest salable unit. Maybe a customer stay proposal needs a slight caveat: the customer suits are stayed, with the sole exception of limited discovery of the number of units provided certain criteria are met.”

F. Limiting the Number of Claims and References at Issue in a Case

Both sets of respondents evaluated limiting the number of claims and references as moderately effective, and the practice received an overall effectiveness rating of 61% from inside counsels and 55% from outside counsels. One respondent noted: “Limiting the number of claims and references could deprive a litigant of their full day in the Court. A PTO reform that limits the total number of claims in an issued patent to three independent claims and no more than 17 dependent would be a much better approach.” Another stated: “While as a technical

matter, limiting the number of asserted claims and claim terms increases efficiency, I am always concerned about due process issues.”

#### G. Small Claims Court

We asked outside counsel about small claims court. Small claims court received the lowest ranking in terms of effectiveness in increasing the efficiency of cases, with a number of commenters believing it would increase the volume of cases: “the small claims court idea is extremely interesting, because there is a whole world of patents that are impossible to enforce simply because they aren't backed by a large enough product line.” “[S]mall claims court would likely cause cases that are not currently filed to be filed.” Others commented that certain implementations wouldn’t work – those that did away with juries, a constitutional requirement, or those that were not “mandatory. A voluntary program is no better than what is currently in place, including voluntary arbitration provisions of 35 USC. However, commentators did not dismiss the idea wholesale, to the extent that “‘small claims court’ that would allow straightforward cases to be addressed in a manner commensurate with their size would be very helpful.”

#### H. Other Reforms

One counsel identified “multiple defendant cases” as a scenario in which it would be beneficial to “identify the real party of interest and let them proceed with the defense so the less involved defendants can avoid costly litigation.” The prospect of expanding the covered business method patent program had a mixed reception, receiving a 47% rating from inside counsels, and a 30% rating from outside counsels.

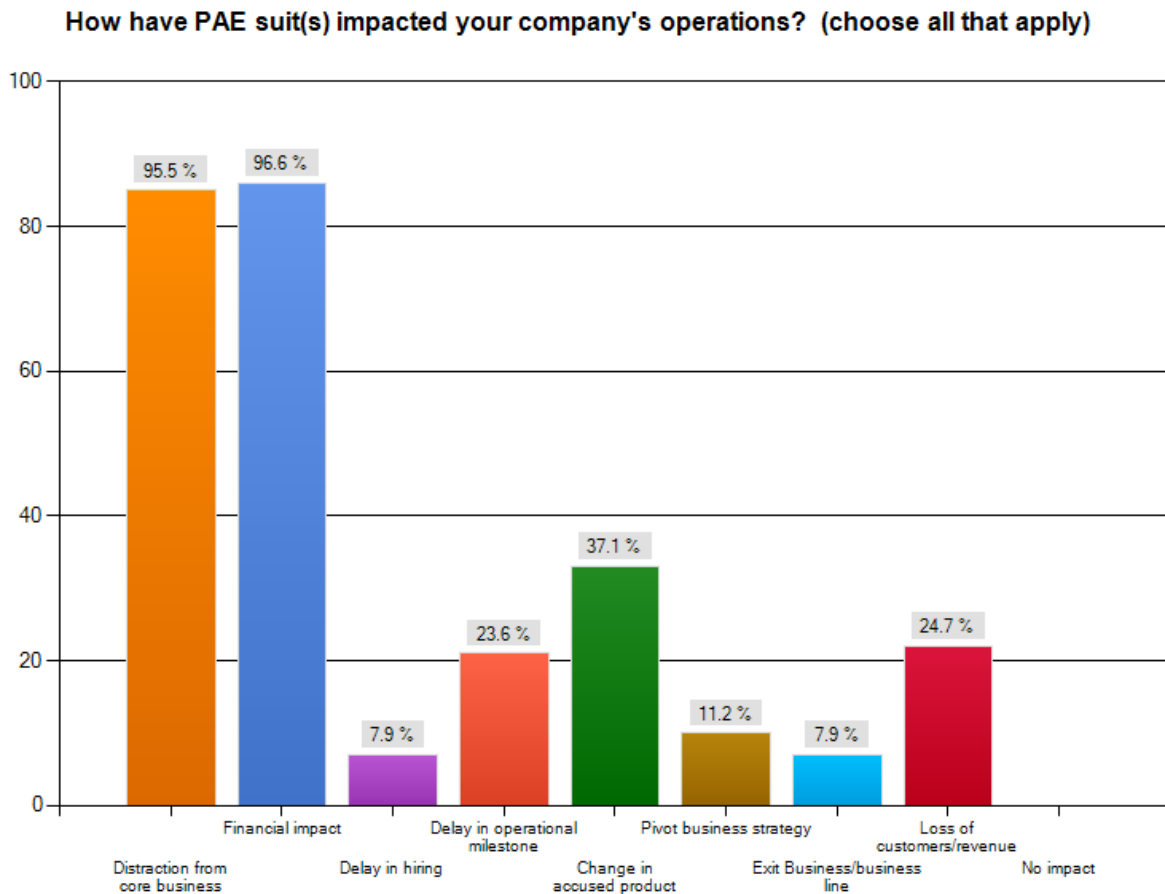
### VI. The Context of Patent Litigation

We asked inside counsel to answer questions related to current patent litigation and monetization trends within their companies.

#### A. PAE Trends and Impacts

We probed companies on the prevalence and impact of suits by PAEs – which the survey defined as a “company that asserts patents as its primary business model.” Over 90% of respondents (N=97) indicated that they had been sued by PAEs, and 89 indicated the impact of the suits. Almost all respondents indicated that the company had experienced a financial

FIG 3: PAE Impacts on Large Companies (N=89)



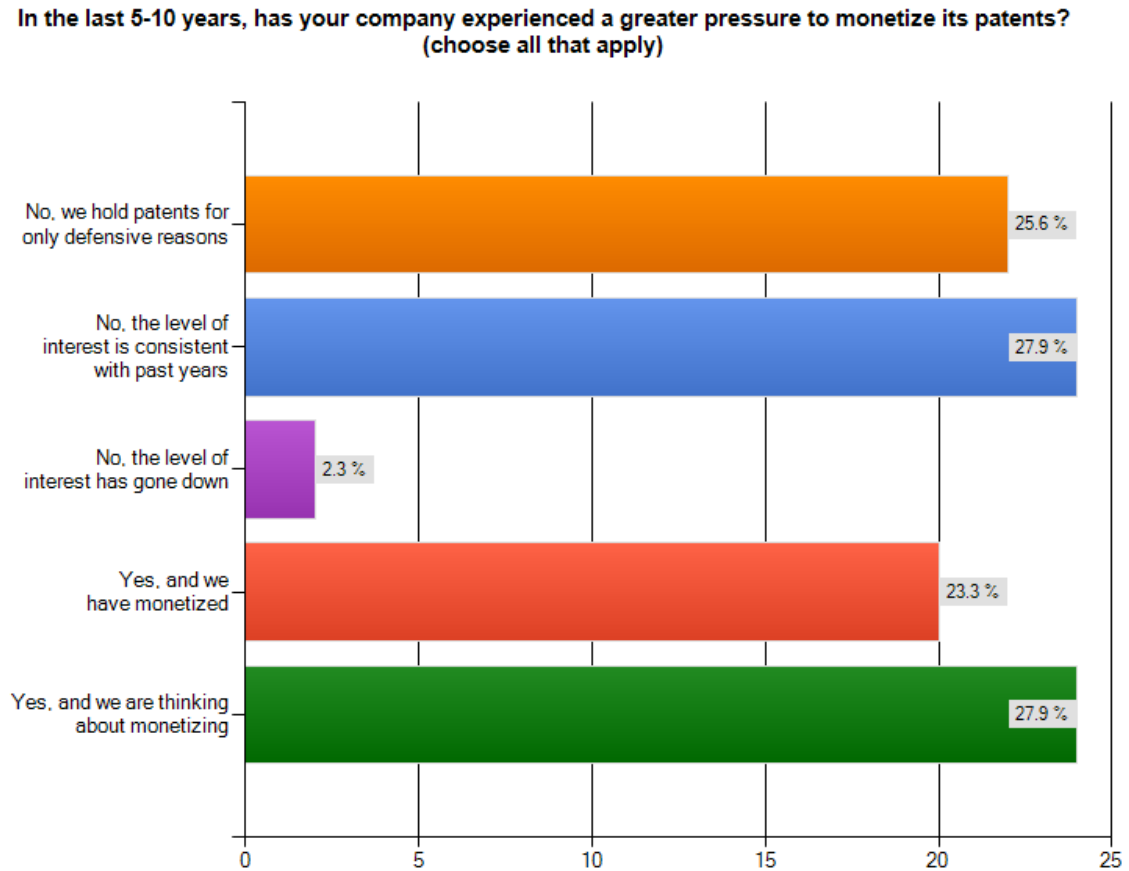
impact and distraction from the suit; after that, a change in product (37%) or loss of customers/revenue (25%) was most frequently cited. (FIG 3) Respondents described these impacts but were largely unwilling to have their responses shared publicly. However, in summary, many respondents described product-related stalling due to design restrictions and pricing related to the uncertainty of increased costs associated with defending a suit. This loss and redirection of resources, many claim, creates a significant distraction from business, reputational damage, and strained customer relationships. One respondent, under the fear of engaging with affected end-users, disfavors doing business with small companies “because they don’t have the budget to indemnify for patent infringement.”

#### B. Monetization Trends

We asked in-house counsel to describe their company’s evolving attitudes towards patent monetization (FIG 4). There was a split in responses – slightly more than half of responses indicated that the respondent’s company had not experienced greater pressure to

monetize, while slightly less than half indicated that their company had either monetized (23%) or were thinking of doing so (28%).

**FIG 4:** Monetization Trends (N=86)



APPENDIX A: MethodologyA. Sampling Frame

In quantitative survey research, the gold standard is to pick a random sample (selection of potential respondents) from a larger frame (list or source of the targeted respondents) that is representative of the target population. The target respondents in this study were large company in-house lawyers and law firm lawyers with 5 or more years practicing or managing patent litigation. We reached the sample using the methods described below, with the following results.

Table A: Summary of Surveyed Population

Population	Distribution	Respondents	Respondent Profile
Large Company IP Lawyers (Inside Counsel)	262 in-house members of Santa Clara University Law School High-Tech Community and personal network (closed list), attendants at 2013 IP Counsel Café Conference and other affiliates of member sof the closed list	122 <sup>7</sup>	95% from public companies or companies with \$100M annual revenue, 71% were technology/software/internet companies.
Lawfirm Lawyers (Outside Counsel)	12,052 litigation counsel randomly selected out of ~ 40,000 counsel identified on litigation pleadings in the last 10 years (source: Academic Experts Group)	394 <sup>8</sup>	65% of qualified respondents had more than 10 years of litigation experience, the rest had 5-10 years. 12% primarily represented plaintiffs, 34% primarily represented defendants, and the remainder represented both equally.

Although referred to throughout this report as a single “survey”, one of two versions of the survey was provided to each respondent depending on whether they self-identified as a inside or outside counsel. Comments were solicited of both populations; however the majority of written responses came from the outside counsel. One reason for this may be that the in-house counsel were given a much longer survey that included questions that inside counsel were uniquely positioned to answer – regarding for example, impacts of patent litigation and remedies on the company and the use of various collaborative defense tactics. While some of those findings are included here, many are deferred to later reports.

<sup>7</sup> Excluding 34 disqualifications.53% of these were from the closed list.

<sup>8</sup> Excluding 105 disqualifications

In addition, the report references a follow-up survey that I conducted of companies that indicated that they had been significantly impacted by a PAE assertion, to get more details about this experience.

Given the low response rate and sampling frame, the survey results should not be regarded as authoritative samples of the larger population. Rather, this sample reflects a hybrid of a convenience and snowball sampling methods. Nevertheless, the results are instructive for describing recent experiences of lawyers with the patent litigation system.

## B. Data Collection

Web surveys increasingly are the ‘go-to’ method for data collection because data collection costs are much less expensive for web compared to phone or mail, and the results are immediate; however they also suffer from low response rates – the typical response rates for web surveys where no relationship between the surveyor and the surveyed population exists are in the single digits. We distributed the survey via SurveyMonkey email account, and sent up to four reminder emails to participants. To encourage participation in the study, we gave in-house counsel respondents the option to receive a copy of the survey results and also told them that the purpose of the survey was to gather input for a report intended for lawmakers and the members of the patent community. However, given cost and related constraints, we did not provide additional incentives – we did not precede or follow-up email invitations with postal mail, telephone, or other correspondence.

## C. Respondent Profiles

### a. Inside Counsel Respondents

95% of qualified respondents represented companies that were either public or had more than \$100M in yearly revenue. 52% had overseen six or more patent litigations in the last 12 months, and 42% managed IP and non-IP disputes for their company, 30% had managed IP disputes only, 28% had only managed patent disputes. 71% of the represented companies were in the Technology/Software/Internet industry; other respondents were from industries such as lifesciences, retail, aviation, medical devices, and manufacturing. 91 out of 97 responded positively to the question “has your company been sued by a PAE”?

### b. Outside Counsel Respondents

65% of qualified respondents had more than 10 years of litigation experience, and the remainder had between 5 and 10 years of experience. 84% represented their clients mostly on a non-contingent basis, with 6% representing their clients on a mostly contingent basis and 10% representing their clients on equally contingent and non-contingent bases. 12% primarily represented plaintiffs, 34% primarily represented defendants, and 54% equally representing plaintiffs and defendants.

#### D. Survey Design

Two versions of the survey were distributed, depending on whether the respondent was an inside or outside counsel, but largely asked the same questions, about the effectiveness of existing and contemplated interventions for increasing the effectiveness of patent litigation. A second set of questions were directed only at in-house counsel and focused on company level experiences and impacts with managing litigation. Some of those results are provided here and others will be published at a later date.

In accordance with standard survey practice, certain modules of the survey were provided selectively to respondents in order to increase completion rate. The modules that were provided to a respondent depended solely on when they took the survey.

#### E. Presentation of Results

In accordance with standard statistical practice, we report results with at least 30 respondents. Some of the questions solicited respondents' opinions about the effectiveness on various interventions by selecting a textual description ranging from "not effective" to "very effective." To facilitate a numerical comparison between the response ranges, we converted these textual descriptions into numerical ones, and calculated a relative percentage based on a range from 0 (all ranked the intervention ineffective) to 100% (all ranked the intervention very effective).

We grouped and presented sets of interventions to each respondent population - inside counsel and outside counsel. Each set of responses generated its own ranking of the relative merits of the interventions presented. In order to evaluate whether or not the two groups, inside and outside counsel, agreed we calculated a statistic, called Relative Order Agreement. If both groups ranked items in exactly the same way, the Relative Order Agreement is +100%. If the two groups had exactly opposite views of what's important, the Relative Order Agreement is -100%. To do this, we placed the ordered items on a centered coordinate axis and then took the inner product of the two resulting vectors.<sup>9</sup>

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<sup>9</sup> This figure of merit is known in statistics as the Spearman correlation coefficient. The coordinates can be thought of as the coordinates of a vector in a (in the case where there are five ranks) five-dimensional space:  $x_1, x_2, x_3, x_4, x_5$  and  $y_1, y_2, y_3, y_4, y_5$ . To gauge the extent to which two vectors (the rankings of the in-house and outside counsel groups here) point "in the same direction" or not, we took the inner product, normalized by the length of either of the vectors (since these vectors are permutations of the ordered list  $(1, 2, 3, \dots, n)$ , they both have the same length):

$$ROA = \text{sum}(x_1*y_1+x_2*y_2+\dots) / (x_1^2+x_2^2+\dots)$$

Inner products measure the projection of one vector on another. When the two vectors are collinear and point in the same direction, the inner product is maximized. When they are collinear but point in opposite directions, the inner product is negative with maximized magnitude. When they are unrelated (orthogonal to one another), the inner product is 0.



APPENDIX B: Author Bios

Daniel Dobkin has worked in high-speed communications for 35 years. He holds Ph.D. and M.S. degrees from Stanford University, and a B.S. from the California Institute of Technology, all in applied physics. He is the inventor or co-inventor of 7 US patents, and author of three technical books, 40 technical articles and tutorials, and roughly 1000 mostly-technical jokes on Twitter. He lives in Sunnyvale, California with wife Nina, children Nicholas (when home from college) and Amelia, and guinea pigs Crackle and Rupert.

Wesley Helmholz is a May 2013 graduate of Santa Clara University School of Law. He will begin work as an associate in the intellectual property practice group at Orrick, Herrington & Sutcliffe in September. As a law student, he worked with Professor Chien on a number of projects, including the Patent Litigation Best Practices survey, FCAC conference, and report. Wesley also worked as an extern in the chambers of the Honorable Ronald M. Whyte of the Northern District of California.

Coryn Millslagle is currently a third year law student at Santa Clara University School of Law, where she is the Senior Production Editor of the Santa Clara Computer & High Technology Law Journal. While in law school, she has worked as research assistant to Professor Colleen Chien, and interned at Silver Spring Networks and the U.S. Attorney's Office. She received her B.S. from the University of Southern California. Prior to law school, she worked as a political consultant in Washington, DC and Chicago. She enjoys CrossFit, reading TechCrunch, and USC Football.

Nicole Shanahan is currently a 3L at Santa Clara Law School and the founder and CEO of the start-up patent clearing house ClearAccessIP. She is also 2014's symposium editor on the Santa Clara Computer and High Technology Law Journal. Prior to law school she worked as a patent specialist at RPX Corporation, Longan Law Firm in Beijing, and Rutan and Tucker. She lives in San Francisco with her fiancé and Yorkshire terrier.

Christopher P. Tosetti is a 2L at the University of Chicago Law School, where he serves as a Research Assistant to Judge Richard A. Posner and Professor William M. Landes and writes for the Chicago Journal of International Law. A summa cum laude graduate of Georgetown College with an A.B. in Government, his academic interests include political theory and public and international law. Originally from Pasadena California he formerly worked for the Department of the Army.

Colleen Chien is an Associate Professor at Santa Clara University School of Law. She practiced law at Fenwick & West LLC in San Francisco before joining the faculty in 2007. In 2013 she was named a "Woman of Influence" and "One of the Top 50 Most Influential People Worldwide in Intellectual Property" by Managing Intellectual Property Magazine. She lives in Oakland with her husband and their two sons.